

Message Text

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C O N F I D E N T I A L EC BRUSSELS 03872

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS
TAGS: EFIN, EEC, IMF, IT
SUBJECT: EC MONETARY COMMITTEE MEETING

REF: EC BRUSSELS 2308

1. SUMMARY: THE EC MONETARY COMMITTEE, MEETING IN PARIS
APRIL 15, GAVE APPROVAL TO THE 1977 ECONOMIC POLICY CONDITIONS
FOR ITALY AND A GO-AHEAD TO THE COMMISSION TO NEGOTIATE THE
\$500 MILLION COMMUNITY BORROWING ON BEHALF OF ITALY. THE
COMMITTEE DISCUSSED IMF ISSUES IN PREPARATION FOR THE
COMING INTERIM COMMITTEE MEETINGS, WITH SUBSTANTIALLY
DIFFERING VIEWS ON A NEW QUOTA INCREASE, NEARLY UNANIMOUS
VIEWS AGAINST NEW SDR ALLOCATIONS, BUT GENERAL SUPPORT
FOR THE PROPOSED IMF SPECIAL FACILITY. END SUMMARY.

2. THE EC MONETARY COMMITTEE MET IN PARIS APRIL 15.
THE MAJOR BUSINESS OF THE MEETING WAS A FURTHER DISCUSSION
OF ISSUES FOR THE COMING MEETING OF THE IMF INTERIM
COMMITTEE. IN FACT, ACCORDING TO SOURCES IN BRUSSELS,
CONSIDERATION OF THESE ISSUES DID NOT ADVANCE MUCH
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BEYOND THE EARLIER MEETING REPORTED REFTEL. THE
COMMITTEE APPROVED A DRAFT STATEMENT FOR HEALEY TO GIVE
AT THE IMF INTERIM COMMITTEE IN WASHINGTON.

3. THERE WAS A CONTINUED MAJOR DIFFERENCE OF VIEW
AMONG MEMBER STATES ON THE SIZE OF A NEW (SEVENTH)
IMF QUOTA INCREASE, BUT A CLOSE CONVERGENCE OF VIEWS

ON OTHER IMF MATTERS. IT WAS GENERALLY AGREED THAT THERE WAS A CLOSE INTERRELATION BETWEEN THE VARIOUS POSSIBILITIES FOR INCREASING OFFICIAL INTERNATIONAL FINANCING CAPABILITIES. THERE WAS UNANIMOUS SUPPORT FOR THE CONCEPT OF THE SPECIAL IMF FACILITY, AS PROPOSED BY WITTEVEEN, BUT SOME UNDERLYING CONCERNS ON SPECIFIC ASPECTS OF SUCH A FACILITY - I.E., ITS SIZE, CONDITIONALITY, LENGTH OF MATURITY OF LENDING, AND LENDING LIMITS. THESE, HOWEVER, WERE NOT DISCUSSED IN DETAIL, SINCE IT WAS FELT THAT THE INTERIM COMMITTEE SHOULD TURN SUCH DETAILS OVER TO THE IMF EXECUTIVE BOARD FOR STUDY.

4. AS BEFORE, ITALY WAS ALONE IN SUPPORTING A NEW SDR ALLOCATION. ON QUOTAS, SEVERAL COUNTRIES FAVORED A "SUBSTANTIAL" -I.E. 50 PERCENT OR MORE- INCREASE IN QUOTAS, INCLUDING THE UK, ITALY, IRELAND, DENMARK. FRANCE SUPPORTED A "SUBSTANTIAL, RAPID, AND GENERAL" INCREASE, BUT WITH PRIORITY GIVEN TO SPEED AND PROPORTIONALITY RATHER THAN SIZE. GERMANY AND THE NETHERLANDS OPPOSED ANY INCREASE ABOVE 25 PERCENT, AND BELGIUM AND LUXEMBOURG ALSO FAVORED A "REASONABLE" RATHER THAN "SUBSTANTIAL" INCREASE.

5. ON ANOTHER IMF ISSUE, THE FRENCH REPRESENTATIVE INDICATED THAT THE LATEST FUND DRAFT ON EXCHANGE RATE SURVEILLANCE WAS ACCEPTABLE. THERE WAS NO FURTHER DISCUSSION OF THIS TOPIC, SINCE NO OTHER REPRESENTATIVE HAD ANY PROBLEM WITH THE FUND PAPER.

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6. HEALEY'S STATEMENT TO THE INTERIM COMMITTEE WILL BE GENERAL, EMPHASIZING THE NEED FOR COOPERATION, FURTHER EFFORTS TO BETTER ADJUST PAYMENTS POSITIONS WITHOUT EXCESSIVE DEFLATION, AND THE IMPORTANCE OF THE IMF ROLE. HE WILL EXPRESS HOPE THAT THE 6TH QUOTA INCREASE WILL BE QUICKLY IMPLEMENTED, AND EC WILLINGNESS TO ACCEPT AN ARGUMENT FOR A FURTHER INCREASE. HE WILL EXPRESS GENERAL SUPPORT FOR THE CONCEPT OF A SPECIAL FACILITY AND THE NEARLY UNANIMOUS RESERVATION OF THE EC ON A NEW SDR ALLOCATION. HE WILL SUGGEST THAT THE IMF STUDY THE BELGIAN PROPOSALS FOR STRENGTHENING THE SDR.

7. THE MONETARY COMMITTEE ALSO APPROVED, WITH RELATIVELY LITTLE DISCUSSION, THE 1977 ECONOMIC POLICY CONDITIONS FOR ITALY, WHICH HAD BEEN HELD UP PENDING COMPLETION OF GOI NEGOTIATIONS WITH THE IMF. THE CONDITIONS ARE CONSISTENT WITH THOSE AGREED TO WITH THE IMF, ALTHOUGH ON A CALENDAR YEAR BASIS. (1978 CONDITIONS WILL NEED

TO BE DETERMINED LATER IN THE YEAR). THE COMMITTEE GAVE ITS APPROVAL TO COMMISSION NEGOTIATIONS TO BORROW \$500 MILLION ON BEHALF OF ITALY, ON EITHER A FIXED RATE OR VARIABLE RATE BASIS. (WE ARE TOLD THAT THE COMMISSION ALREADY HAS \$500 MILLION LINED UP, ON A 7-1/2 PERCENT FIXED-RATE BASIS).

8. THERE WAS BRIEF MENTION OF A DRAFT EC RESPONSE TO THE US ON THE POSSIBILITY OF A COMMUNITY CONTRIBUTION TO THE PROPOSED AID CONSORTIUM FOR PORTUGAL. SINCE MOST REPRESENTATIVES HAD NOT RECEIVED THE DRAFT LETTER, DISCUSSION WAS DEFERRED. THE DRAFT, WE ARE TOLD IN CONFIDENCE, SAYS THAT MEMBER STATES WILL BE RESPONDING INDIVIDUALLY, BUT (AFTER LISTING PAST EC ASSISTANCE TO PORTUGAL) CONCLUDES THAT THE EC ITSELF WILL NOT BE ABLE TO ENTER INTO A COMMITMENT FOR SOME TIME. (EC COMMISSION DIRECTOR GENERAL MOSCA ADVISED

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THE MEETING THAT A LOAN TO A NON-MEMBER STATE UNDER THE JOINT BORROWING FACILITY IS NOT POSSIBLE UNDER THE TERMS OF THE COUNCIL DECISION).

9. THE NEXT MONETARY COMMITTEE WILL BE HELD JUNE 9, WITH AN AGENDA STILL TO BE DETERMINED. MORRIS

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